Is Air Canada (TSX:AC) Stock a No-Brainer Buy?

Description

The best time to go on a buying frenzy was the latter half of March when the bulk of the market was trading at a steep discount. Valuations were at an all-time low, and if you could spot the strong recovery stock, you could double or even triple your investment in a matter of months.

That time is gone now, but there are still remnants of the market crash — stocks that are still trading at deeply discounted prices. But now, there is an element of doubt attached to such stocks. If they couldn't recover when the bulk of the market did, will they recover? And even if they do, how long will it take? Wouldn't it be better to buy a strong growth stock instead of banking on the recovery of a weak stock?

These are the questions you would ask about any of the stocks in the still-troubled industries like finance, real estate, or energy. And then there are airlines: especially **Air Canada** (TSX:AC), the premier airline in the country.

Air Canada and the huge upside potential

Air Canada was one of the best growth stocks on the TSX. This amazing history is slowly being forgotten under the current circumstances; the stock is finding it hard to break the $20 price barrier for more than a few weeks. But we can't ignore the fact that Air Canada's chances of recovery, especially considering how resilient the stock has been and how effectively the company has raised capital, are higher than the company tanking for good.

Most investors aren't afraid that the company will never recover again. They are afraid of the recovery timeline and pace. If the stock takes more than three to five years to reach its pre-pandemic valuation, which will result in over 170% capital growth (considering $18 now, and $50 in the future), is it worth the risk?

This *is* huge upside potential, but there is no surety how it will play out. The company might recover faster. A vaccine can spur many investors to action, boosting the price way before the company's own recovery estimate of three years. But it should be weighed against the risks.

The risks

More and more medical experts are raising concerns regarding the second wave of the coronavirus. Europe is already preparing to fight it, and Ontario's premier announced his intentions regarding a second lockdown if the number of cases keeps rising. The second wave and lockdown could be devastating for all businesses, but especially for airlines.

Economic markers aside, the psychological impact regarding travel during COVID-19 will be enough to keep demand low. Air travel around the globe did pick up when people thought the worst was behind us. But as concerns regarding a second wave started mounting, demand for air travel slumped again.

And no matter how resilient Air Canada might be, it simply does not have the resources to spend another six to eight months with almost no revenue coming in (apart from cargo).

Foolish takeaway

Air Canada is a no-brainer buy if you believe the economy as a whole and the company will recover and that the recovery will be strong enough to set Air Canada on the road back to its previous glory. But it's a long shot, and despite a very attractive valuation, Air Canada might be a risky stock. Then again, if you believe in win-big, lose-big investments, you may want to bet on the airline taking to the air again.

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